

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

|                                                                                                                                                                                                        |                         |                                                    |                      |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|----------------------------------------------------|----------------------|
| Local Unit of Government Type<br><input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other |                         | Local Unit Name<br>Fowlerville Area Fire Authority | County<br>Livingston |
| Fiscal Year End<br>6/30/06                                                                                                                                                                             | Opinion Date<br>10/5/06 | Date Audit Report Submitted to State<br>11/17/06   |                      |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


SE  
Z

**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

|                                                                                                                  |                                       |                                            |             |
|------------------------------------------------------------------------------------------------------------------|---------------------------------------|--------------------------------------------|-------------|
| <b>We have enclosed the following:</b>                                                                           | Enclosed                              | Not Required (enter a brief justification) |             |
| Financial Statements                                                                                             | <input checked="" type="checkbox"/>   |                                            |             |
| The letter of Comments and Recommendations                                                                       | <input checked="" type="checkbox"/>   |                                            |             |
| Other (Describe)                                                                                                 | <input checked="" type="checkbox"/>   | N/A                                        |             |
| Certified Public Accountant (Firm Name)<br>Abraham & Gaffney, P.C.                                               |                                       | Telephone Number<br>(517) 351-6836         |             |
| Street Address<br>3511 Coolidge Road, Suite 100                                                                  |                                       | City<br>East Lansing                       | State<br>MI |
| Zip<br>48823                                                                                                     |                                       |                                            |             |
| Authorizing CPA Signature<br> | Printed Name<br>Aaron M. Stevens, CPA | License Number<br>1101024055               |             |

**Fowlerville Area Fire Authority  
Fowlerville, Michigan**

**FINANCIAL STATEMENTS**

**June 30, 2006**

Fowlerville Area Fire Authority

Fowlerville, Michigan

June 30, 2006

AUTHORITY BOARD MEMBERS AND ADMINISTRATION

|                    |                        |
|--------------------|------------------------|
| Mr. Roy DeGroot    | Chair                  |
| Mr. Wayne Copeland | Vice-Chair             |
| Ms. Cindy Denby    | Treasurer              |
| Mr. Eric West      | Secretary              |
| Mr. John Wright    | Fire Chief             |
| Ms. Julie Woodward | Secretary to the Board |

Fowlerville Area Fire Authority

TABLE OF CONTENTS

June 30, 2006

|                                                                                                                                                | <u>Page</u> |
|------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| INDEPENDENT AUDITOR'S REPORT                                                                                                                   | i           |
| MANAGEMENT'S DISCUSSION AND ANALYSIS                                                                                                           | ii-iv       |
| BASIC FINANCIAL STATEMENTS                                                                                                                     |             |
| Government-wide Financial Statements                                                                                                           |             |
| Statement of Net Assets                                                                                                                        | 1           |
| Statement of Activities                                                                                                                        | 2           |
| Fund Financial Statements                                                                                                                      |             |
| Governmental Fund Balance Sheet                                                                                                                | 3           |
| Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets                                                           | 4           |
| Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Fund                                                           | 5           |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of the Governmental Fund to the Statement of Activities | 6           |
| Notes to Financial Statements                                                                                                                  | 7-13        |
| REQUIRED SUPPLEMENTARY INFORMATION                                                                                                             |             |
| GENERAL FUND                                                                                                                                   |             |
| Budgetary Comparison Schedule                                                                                                                  | 14          |

Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA



**ABRAHAM & GAFFNEY, P.C.**  
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Members of the  
Fowlerville Area Fire Authority  
Fowlerville, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the Fowlerville Area Fire Authority as of and for the year ended June 30, 2006, which collective comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Authority. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Fowlerville Area Fire Authority as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information as identified in the table of contents are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

October 5, 2006

Fowlerville Area Fire Authority  
Management's Discussion and Analysis

June 30, 2006

**Overview**

The Fowlerville Area Fire Authority, (the "Authority") has presented its financial statements in conformity with standards set by the Governmental Accounting Standards Board (GASB). The intent of these standards is to provide citizens, taxpayers, customers, and investors with a better understanding of how the Authority's money and other assets are managed.

The standards set by GASB are intended to give the reader of this annual financial report a better understanding of the financial status of the Authority. The standards introduce accounting rules and systems that are common in the private sector. This report presents a much broader picture of the Authority's financial status. Through this comprehensive reporting of assets and liabilities, the reader will have a greater understanding of the Authority's financial health.

The discussion and analysis of financial performance provides an overview of the Authority's financial activities for the year ended June 30, 2006. Please read it in conjunction with the Authority's financial statements.

**Financial Highlights**

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2006:

- The assets of the Authority exceeded its liabilities at the close of the year by \$1,933,928 (net assets).
- The Operating Fund finished the year with an ending fund balance of \$743,525.

**Using this Annual Report**

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Fowlerville Area Fire Authority as a whole and present a longer-term view of the Authority's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the operations of the Fowlerville Area Fire Authority in more detail than the government-wide financial statements by providing information about the Authority's fund.

Fowlerville Area Fire Authority  
Management's Discussion and Analysis  
June 30, 2006

**The Authority as a Whole**

The following table shows, in a condensed format, the net assets as of June 30, 2006 and 2005.

|                                                    | 2005                | 2006                |
|----------------------------------------------------|---------------------|---------------------|
| <b>Assets</b>                                      |                     |                     |
| Current assets                                     | \$ 617,934          | \$ 764,133          |
| Capital assets, net                                | <u>1,875,463</u>    | <u>1,774,475</u>    |
| Total assets                                       | 2,493,397           | 2,538,608           |
| <b>Liabilities</b>                                 |                     |                     |
| Current liabilities                                | 107,740             | 81,044              |
| Noncurrent liabilities                             | <u>440,964</u>      | <u>523,636</u>      |
|                                                    | 548,704             | 604,680             |
| <b>Net Assets</b>                                  |                     |                     |
| Invested in capital assets,<br>net of related debt | 1,505,463           | 1,200,575           |
| Unrestricted                                       | <u>439,230</u>      | <u>733,353</u>      |
| Total net assets                                   | <u>\$ 1,944,693</u> | <u>\$ 1,933,928</u> |

The Authority's total net assets were \$1,933,693 at June 30, 2006. Unrestricted net assets (the part of net assets that can be used to finance day-to-day operations) were \$733,353 at the end of the fiscal year. The net assets invested in capital assets were at \$1,200,575.

The following table shows the changes in net assets during the year ended June 30, 2006 the period ended June 30, 2005. It should be noted that the period ended June 30, 2005 was a six month period.

|                                    | 2005                | 2006                 |
|------------------------------------|---------------------|----------------------|
| <b>Revenue</b>                     |                     |                      |
| Program revenue:                   |                     |                      |
| Charges for services               | \$ 7,646            | \$ 4,404             |
| Operating grants and contributions | 251,845             | 61,063               |
| Capital grants and contributions   | 1,539,310           | -                    |
| General revenue:                   |                     |                      |
| Property taxes                     | 453,345             | 529,567              |
| Investment earnings                | 3,441               | 22,273               |
| Other revenue                      | <u>-</u>            | <u>8,442</u>         |
| Total revenue                      | 2,255,587           | 625,749              |
| <b>Program Expenses</b>            |                     |                      |
| Public safety                      | 295,268             | 648,286              |
| Interest on long-term debt         | <u>15,626</u>       | <u>34,195</u>        |
| Total expenses                     | <u>310,894</u>      | <u>682,481</u>       |
| <b>Change in Net Assets</b>        | <u>\$ 1,944,693</u> | <u>\$ ( 56,732 )</u> |

Fowlerville Area Fire Authority  
Management's Discussion and Analysis

June 30, 2006

**Governmental Activities**

The Authority's governmental revenues totaled \$625,749 with the greatest revenue source being property taxes. Property taxes make up approximately 85 percent of total governmental revenue.

The Authority incurred expenses of \$682,481 during the year. As a special purpose government, most of the governmental expenses incurred are associated with the public safety function, however, some expenditures were incurred for interest payments on long-term debt.

**The Authority's Fund**

The analysis of the Authority's fund begins on page 3, following the government-wide financial statements. The fund financial statements provide detailed information about the individual fund, not the Fowlerville Area Fire Authority as a whole. The Fowlerville Area Fire Authority's Board of Trustees creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The Authority's only fund for the year ended June 30, 2006 was the General (Operating) Fund.

The General Fund pays for the Authority's governmental services. The sole service provided during the fiscal period was emergency management, which incurred expenditures of \$442,331.

**General Fund Budgetary Highlights**

Over the course of the period, the Authority Board did not make any budget adjustments to the budget during the year. Over the course of the next fiscal year, the Authority Board will make any necessary budget amendments to fund unexpected expenditures as they arise.

The Authority exceeded anticipated revenues by \$48,856. The Board stayed within the budgeted expenditures for the year, and had a total favorable budget variance of \$104,757 for the year ended June 30, 2006.

**Capital Asset and Debt Administration**

At the end of the fiscal year, the Authority had \$1,774,475 invested in land, buildings, equipment, and emergency service vehicles (net of accumulated depreciation). Fire equipment in the amount of \$4,098 was added to capital assets during the year.

The Authority paid \$20,000 of principal on the 2002 General Obligation Bonds in the current year. Of the remaining balance of \$350,000, \$20,000 is shown as a current liability in the government-wide statement of net assets. The remaining balance of \$330,000 is shown as a long-term liability. The Authority also paid \$22,742 on its notes payable to Howell and Cohoctah Townships.

The Authority issued a note payable to Iosco Township in the amount of \$140,058. This note represents a repayment to the township for equipment and capital given to the Authority in the prior period. The note is due and payable through January 31, 2019. A payment of \$7,122 was made during the year, leaving a remaining balance of \$132,936.

**Contacting the Authority's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Authority's finances and demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Village of Fowlerville bookkeeper at 517-223-3771.



## **BASIC FINANCIAL STATEMENTS**

Fowlerville Area Fire Authority  
STATEMENT OF NET ASSETS  
June 30, 2006

|                                                 | <u>Governmental<br/>Activities</u> |
|-------------------------------------------------|------------------------------------|
| <b>ASSETS</b>                                   |                                    |
| Current assets                                  |                                    |
| Cash and cash equivalents                       | \$ 739,904                         |
| Due from other governmental units               | <u>24,229</u>                      |
| Total current assets                            | 764,133                            |
| Noncurrent assets                               |                                    |
| Capital assets not being depreciated            | 240,000                            |
| Capital assets net of accumulated depreciation  | <u>1,534,475</u>                   |
| Total noncurrent assets                         | <u>1,774,475</u>                   |
| TOTAL ASSETS                                    | 2,538,608                          |
| <b>LIABILITIES</b>                              |                                    |
| Current liabilities                             |                                    |
| Accounts payable                                | 11,856                             |
| Accrued liabilities                             | 8,752                              |
| Accrued interest payable                        | 10,172                             |
| Current portion of long-term debt               | <u>50,264</u>                      |
| Total current liabilities                       | 81,044                             |
| Noncurrent liabilities                          |                                    |
| Noncurrent portion of long-term debt            | <u>523,636</u>                     |
| TOTAL LIABILITIES                               | <u>604,680</u>                     |
| <b>NET ASSETS</b>                               |                                    |
| Invested in capital assets, net of related debt | 1,200,575                          |
| Unrestricted                                    | <u>733,353</u>                     |
| TOTAL NET ASSETS                                | <u><u>\$ 1,933,928</u></u>         |

See accompanying notes to financial statements.

Fowlerville Area Fire Authority

STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

| Functions/Programs                     | Expenses          | Program Revenue         |                                          | Net (Expense)<br>Revenue and<br>Changes in<br>Net Assets |
|----------------------------------------|-------------------|-------------------------|------------------------------------------|----------------------------------------------------------|
|                                        |                   | Charges for<br>Services | Operating<br>Grants and<br>Contributions |                                                          |
| Governmental activities                |                   |                         |                                          |                                                          |
| Public safety                          | \$ 648,286        | \$ 4,404                | \$ 61,063                                | \$ (582,819)                                             |
| Interest on long-term debt             | 34,195            | -                       | -                                        | (34,195)                                                 |
|                                        | <u>\$ 682,481</u> | <u>\$ 4,404</u>         | <u>\$ 61,063</u>                         | (617,014)                                                |
| General revenues                       |                   |                         |                                          |                                                          |
| Property taxes                         |                   |                         |                                          | 529,567                                                  |
| Investment earnings                    |                   |                         |                                          | 22,273                                                   |
| Miscellaneous                          |                   |                         |                                          | <u>8,442</u>                                             |
| Total general revenues                 |                   |                         |                                          | <u>560,282</u>                                           |
| CHANGE IN NET ASSETS                   |                   |                         |                                          | (56,732)                                                 |
| Restated net assets, beginning of year |                   |                         |                                          | <u>1,990,660</u>                                         |
| Net assets, end of year                |                   |                         |                                          | <u>\$ 1,933,928</u>                                      |

See accompanying notes to financial statements.

Fowlerville Area Fire Authority  
GOVERNMENTAL FUND BALANCE SHEET  
June 30, 2006

|                                       | <u>General</u>    |
|---------------------------------------|-------------------|
| ASSETS                                |                   |
| Cash and cash equivalents             | \$ 739,904        |
| Due from other governmental units     | <u>24,229</u>     |
| TOTAL ASSETS                          | <u>\$ 764,133</u> |
| LIABILITIES AND FUND BALANCE          |                   |
| LIABILITIES                           |                   |
| Accounts payable                      | \$ 11,856         |
| Accrued liabilities                   | <u>8,752</u>      |
| TOTAL LIABILITIES                     | 20,608            |
| FUND BALANCE                          |                   |
| Unreserved                            |                   |
| Designated for equipment purchases    | 345,132           |
| Undesignated                          | <u>398,393</u>    |
| TOTAL FUND BALANCE                    | <u>743,525</u>    |
| TOTAL LIABILITIES<br>AND FUND BALANCE | <u>\$ 764,133</u> |

See accompanying notes to financial statements.

Fowlerville Area Fire Authority

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS

June 30, 2006

**Fund balance - governmental fund** **\$ 743,525**

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported as assets in the governmental funds.

|                               |                  |           |
|-------------------------------|------------------|-----------|
| The cost of capital assets is | \$ 1,999,840     |           |
| Accumulated depreciation is   | <u>(225,365)</u> |           |
|                               |                  | 1,774,475 |

Long-term liabilities, are not due and payable in the current period and therefore  
are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

|                          |               |                  |
|--------------------------|---------------|------------------|
| Bonds and notes payable  | 573,900       |                  |
| Accrued interest payable | <u>10,172</u> |                  |
|                          |               | <u>(584,072)</u> |

**Net assets of governmental activities** **\$ 1,933,928**

See accompanying notes to financial statements.

Fowlerville Area Fire Authority

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

Year Ended June 30, 2006

|                                      | <u>General</u>           |
|--------------------------------------|--------------------------|
| REVENUES                             |                          |
| Property taxes                       | \$ 529,567               |
| Intergovernmental                    | 59,063                   |
| Charges for services                 | 4,404                    |
| Interest                             | 22,273                   |
| Other                                | <u>10,442</u>            |
| TOTAL REVENUES                       | 625,749                  |
| EXPENDITURES                         |                          |
| Current                              |                          |
| Salaries and wages                   | 128,989                  |
| Fringe benefits                      | 10,403                   |
| Supplies                             | 20,407                   |
| Contractual services                 | 14,152                   |
| Permits                              | 2,200                    |
| Insurance                            | 34,841                   |
| Repairs and maintenance              | 7,321                    |
| Utilities                            | 14,714                   |
| Training                             | 7,857                    |
| Medical examinations                 | 1,447                    |
| Other                                | 4,713                    |
| Debt service                         | 81,058                   |
| Capital outlay                       | <u>114,229</u>           |
| TOTAL EXPENDITURES                   | <u>442,331</u>           |
| EXCESS OF REVENUES OVER EXPENDITURES | 183,418                  |
| Fund balance, beginning of year      | <u>560,107</u>           |
| Fund balance, end of year            | <u><u>\$ 743,525</u></u> |

See accompanying notes to financial statements.

Fowlerville Area Fire Authority

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

**Net change in fund balance - governmental fund** **\$ 183,418**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

|                                                    |    |                  |           |
|----------------------------------------------------|----|------------------|-----------|
| Capital outlay                                     | \$ | 4,098            |           |
| Depreciation expense                               |    | <u>(147,453)</u> |           |
| Excess of depreciation expense over capital outlay |    |                  | (143,355) |
| Net effect of disposal of capital assets           |    |                  | (3,600)   |

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in the governmental fund, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets.

In the current year, these amounts consist of:

|                                                        |                |  |                 |
|--------------------------------------------------------|----------------|--|-----------------|
| Assumption of long-term debt related to capital assets | (140,058)      |  |                 |
| Repayment of long-term debt                            | 49,864         |  |                 |
| (Increase) in accrued interest payable                 | <u>(3,001)</u> |  |                 |
|                                                        |                |  | <u>(93,195)</u> |

**Change in net assets of governmental activities** **\$ (56,732)**

See accompanying notes to financial statements.

Fowlerville Area Fire Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE A: DESCRIPTION OF AUTHORITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Fowlerville Area Fire Authority was created on January 1, 2005 by a joint venture agreement between the Townships of Handy, Iosco, Cohoctah and Conway and the Village of Fowlerville. The Authority is considered a Municipal Emergency Service Authority as provided in the Emergency Services to Municipalities Act, 1988 PA57, MCL 124.601. The remaining formation and operating guidelines, etc. are detailed in the Authority's Articles of Incorporation and Bylaws and are maintained in the Authority's administrative offices. Each Township appoints one (1) member and the Village appoints one (1) member to the Board. The Chief oversees the day-to-day operations of the Authority.

The Authority has no stockholders and all monies received are to be used for certain specified purposes in accordance with the joint venture agreement between the constituent municipalities.

The Authority is intended to operate as much as possible from funds and income derived from operations. However, each township is responsible for remitting the portion of the fire authority property tax levy collected to the Authority. Other responsibilities including insurance coverage and procedures for termination of services are explicitly detailed in the joint venture agreement, bylaws, and articles of incorporation of the Authority.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements are exclusive presentations of the financial condition and results of operations of the Fowlerville Area Fire Authority. The Authority is considered a "joint venture" of the Village of Fowlerville, Handy Township, Iosco Township, Cohoctah Township and Conway Township.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the Authority as a whole.

The statement of activities presents the direct functional expenses of the Authority and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes taxes, interest, and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the Authority's individual major fund. The major fund of the Authority is:

- a. The General (Operating) Fund is the used to account for all financial resources to be used for fire protection services provided to each participating municipality.

3. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.



Fowlerville Area Fire Authority  
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE A: DESCRIPTION OF AUTHORITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

3. Measurement Focus - continued

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The government-wide financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Deferred revenue is recorded when resources are received by the Authority before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenditures.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual include property taxes, charges for services, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt which are recorded when due.

5. Cash and Cash Equivalents

Cash and cash equivalents consist of checking account and pooled investment funds. Cash equivalents are recorded at market value.

6. Capital Assets

Capital assets include land, buildings and improvements, vehicles and equipment and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities. Capital assets are those with an initial cost of \$5,000 or more and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

|                            |             |
|----------------------------|-------------|
| Buildings and improvements | 10-20 years |
| Vehicles                   | 7-20 years  |
| Equipment                  | 5-20 years  |

Fowlerville Area Fire Authority  
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE A: DESCRIPTION OF AUTHORITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**7. Property Taxes**

The participating Townships levy and collect property taxes for the Authority. As the Fire Authority tax is collected it is remitted by the Township Treasurers. At March 1 each year the Townships settle their delinquent taxes with the County Treasurer and the unpaid real property tax is remitted to the Authority by the County Treasurer in Livingston County. Delinquent personal property taxes are retained by the Township Treasurers for subsequent collection. For the year ended June 30, 2006, the Townships levied 1.0692 mills. The total taxable value for the 2005 levy for property within the Townships was \$450,995,387.

**8. Budgets and Budgetary Accounting**

The General (Operating) Fund budget shown as required supplementary information to the financial statements was prepared on a basis not significantly different than the basis used to reflect actual results.

The Authority follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to July 1, the budget is legally adopted on a fund level through passage of a Board resolution. After the budget is adopted all transfers of budgeted amounts between activities, or any revisions that alter the total expenditures of the fund or activity must be approved by the Board.
- b. Formal budgetary integration is employed as a management control device during the year.
- c. The Board does not employ encumbrance accounting as an extension of formal budgetary integration. Appropriations unused at June 30 are not carried forward to the following fiscal year.
- d. Budgeted amounts are reported as originally adopted or amended by the Board during the year. Individual amendments were appropriately approved by the Board as required.

**NOTE B: CASH AND CASH EQUIVALENTS**

Fowlerville Area Fire Authority's deposits consist of a checking account and a money market fund, which are reported as cash and cash equivalents on the Balance Sheet and Statement of Net Assets.

In accordance with Michigan Compiled Laws, the Fowlerville Area Fire Authority is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC) or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation (FSLIC) or a credit union which is insured by the National Credit Union Administration, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.

Fowlerville Area Fire Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED**

3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits of the Fowlerville Area Fire Authority are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Fowlerville Area Fire Authority.

Deposits

There is custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. As of June 30, 2006, the carrying amount and bank balance for the deposits were as follows:

|          | <u>Carrying<br/>Amount</u> | <u>Bank<br/>Balance</u> |
|----------|----------------------------|-------------------------|
| Checking | <u>\$ 21,656</u>           | <u>\$ 22,820</u>        |

The bank balance as of June 30, 2006 was fully insured by the FDIC.

Due to significantly higher cash flow at certain periods during the year, the amount the Authority held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

As of June 30, 2006, the carrying amount and market values for each investment are as follows:

|                                       | <u>Carrying<br/>Amount</u> | <u>Market<br/>Value</u> | <u>Weighted<br/>Average Maturity</u> |
|---------------------------------------|----------------------------|-------------------------|--------------------------------------|
| Uncategorized pooled investment funds |                            |                         |                                      |
| Bank One - Government Op Money Market | <u>\$ 718,248</u>          | <u>\$ 737,606</u>       | 20 days                              |

Fowlerville Area Fire Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED**

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2006, the Authority's investment in uncategorized pooled investments was not rated by an NRSRO.

Interest rate risk

The Authority will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by designating its investment portfolio with the objective of obtaining a rate of return through the economic cycles considering risk constraints and cash flow characteristics.

Concentration of credit risk

The Authority will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer, by diversifying the investment portfolio by security type to ensure that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

Custodial credit risk

The Authority will minimize custodial credit risk, which is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments that are in possession of an outside party by diversifying its investments by institution to ensure that potential losses on individual securities do not exceed the income generated by the remainder of the portfolio.

**NOTE C: CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2006 was as follows:

|                                      | Restated<br>Balance<br>July 1, 2005 | Additions     | Deletions   | Balance<br>June 30, 2006 |
|--------------------------------------|-------------------------------------|---------------|-------------|--------------------------|
| <b>Governmental activities</b>       |                                     |               |             |                          |
| Capital assets not being depreciated |                                     |               |             |                          |
| Land                                 | \$ 240,000                          | \$ -          | \$ -        | \$ 240,000               |
| Capital assets being depreciated     |                                     |               |             |                          |
| Buildings and improvements           | 1,255,080                           | -             | -           | 1,255,080                |
| Equipment                            | 198,253                             | 4,098         | -           | 202,351                  |
| Vehicles                             | 306,909                             | -             | ( 4,500 )   | 302,409                  |
| Subtotal                             | 1,760,242                           | 4,098         | ( 4,500 )   | 1,759,840                |
| Less accumulated depreciation for:   |                                     |               |             |                          |
| Buildings and improvements           | ( 39,825 )                          | ( 66,004 )    | -           | ( 105,829 )              |
| Equipment                            | ( 23,786 )                          | ( 48,119 )    | -           | ( 71,905 )               |
| Vehicles                             | ( 15,201 )                          | ( 33,330 )    | 900         | ( 47,631 )               |
| Subtotal                             | ( 78,812 )                          | ( 147,453 )   | 900         | ( 225,365 )              |
| Net capital assets being depreciated | 1,681,430                           | ( 143,355 )   | ( 3,600 )   | 1,534,475                |
| Capital assets, net                  | \$ 1,921,430                        | \$( 143,355 ) | \$( 3,600 ) | \$ 1,774,475             |

Fowlerville Area Fire Authority  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

**NOTE D: LONG-TERM DEBT**

The following is a summary of changes in long-term debt (including current portion) of the Authority for the year ended June 30, 2006.

|                   | <u>Balance</u><br><u>July 1, 2005</u> | <u>Additions</u>  | <u>Deletions</u> | <u>Balance</u><br><u>June 30, 2006</u> | <u>Amount</u><br><u>due within</u><br><u>one year</u> |
|-------------------|---------------------------------------|-------------------|------------------|----------------------------------------|-------------------------------------------------------|
| 2002 G.O. Bonds   | \$ 370,000                            | \$ -              | \$ 20,000        | \$ 350,000                             | \$ 20,000                                             |
| Notes payable     |                                       |                   |                  |                                        |                                                       |
| Howell Township   | 51,073                                | -                 | 10,215           | 40,858                                 | 10,215                                                |
| Cohoctah Township | 62,633                                | -                 | 12,527           | 50,106                                 | 12,527                                                |
| Iosco Township    | <u>-0-</u>                            | <u>140,058</u>    | <u>7,122</u>     | <u>132,936</u>                         | <u>7,522</u>                                          |
|                   | <u>\$ 483,706</u>                     | <u>\$ 140,058</u> | <u>\$ 49,864</u> | <u>\$ 573,900</u>                      | <u>\$ 50,264</u>                                      |

Significant details regarding outstanding long-term debt are presented below:

General Obligation Bonds

\$400,000 Township of Handy General Obligation Bonds, assumed by the Authority upon formation with outstanding principal of \$370,000, dated September 24, 2002, payable in annual installments ranging from \$20,000 to \$40,000 through October, 1 2017 with interest of 4.450% payable semi-annually.

\$ 350,000

Notes Payable

\$23,566 note payable to Howell Township dated March 29, 2005, payable in annual installments of \$4,713 through January 20, 2010, with interest of 5.625% payable annually.

\$ 18,853

\$27,507 note payable to Howell Township dated March 29, 2005, payable in annual installments of \$5,501 through January 20, 2010, with interest of 5.625% payable annually.

22,005

\$ 40,858

\$42,985 note payable to Cohoctah Township dated March 29, 2005, payable in annual installments of \$8,597 through January 20, 2010, with interest of 5.625% payable annually.

\$ 34,388

\$19,648 note payable to Cohoctah Township dated March 29, 2005, payable in annual installments of \$3,930 through January 20, 2010, with interest of 5.625% payable annually.

15,718

\$ 50,106

\$140,058 note payable to Iosco Township dated January 31, 2006, payable in annual installments of \$15,000 through January 31, 2019, with interest of 5.625% payable annually.

\$ 132,936

Fowlerville Area Fire Authority  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

**NOTE D: LONG-TERM DEBT - CONTINUED**

The annual requirement to pay the debt principal and interest outstanding for the long-term debt is as follows:

| Year Ending<br>June 30, | <u>General Obligation Bonds</u> |                   | <u>Notes Payable</u> |                  |
|-------------------------|---------------------------------|-------------------|----------------------|------------------|
|                         | <u>Principal</u>                | <u>Interest</u>   | <u>Principal</u>     | <u>Interest</u>  |
| 2007                    | \$ 20,000                       | \$ 15,300         | \$ 30,264            | \$ 12,735        |
| 2008                    | 20,000                          | 14,410            | 30,687               | 10,998           |
| 2009                    | 25,000                          | 13,409            | 31,134               | 9,237            |
| 2010                    | 25,000                          | 12,296            | 31,602               | 7,451            |
| 2011                    | 25,000                          | 11,184            | 9,363                | 5,637            |
| 2012-2016               | 160,000                         | 35,996            | 55,334               | 19,666           |
| 2017-2019               | <u>75,000</u>                   | <u>3,625</u>      | <u>35,516</u>        | <u>3,758</u>     |
|                         | <u>\$ 350,000</u>               | <u>\$ 106,220</u> | <u>\$ 223,900</u>    | <u>\$ 69,482</u> |

**NOTE E: RISK MANAGEMENT**

The Authority is exposed to various risks of loss including accidental death, dismemberment, disability, medical expense benefit; errors and omissions; blanket accident; firefighter accident; and workers' compensation for which the Authority carries commercial insurance.

**NOTE F: FUND EQUITY DESIGNATIONS**

Designated fund equity indicates that portion of fund balance or net assets which the Authority has set aside for specific purposes. This designations is recorded at the fund level to indicate management plans for these funds.

The following is the fund balance designation as of June 30, 2006:

|                                    |                   |
|------------------------------------|-------------------|
| Designated for equipment purchases | <u>\$ 345,132</u> |
|------------------------------------|-------------------|

**NOTE G: RESTATED NET ASSETS**

Beginning net assets were restated to correctly reflect the amount of capital assets, net of accumulated depreciation, on the Statement of Net Assets as of June 30, 2006. Net assets were increased by \$45,967.

## **REQUIRED SUPPLEMENTARY INFORMATION**

Fowlerville Area Fire Authority

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2006

|                                         | Budgeted Amounts |            |            | Variance<br>With Final<br>Budget<br>Positive<br>(Negative) |
|-----------------------------------------|------------------|------------|------------|------------------------------------------------------------|
|                                         | Original         | Final      | Actual     |                                                            |
| REVENUES                                |                  |            |            |                                                            |
| Property taxes                          | \$ 505,300       | \$ 505,300 | \$ 529,567 | \$ 24,267                                                  |
| Intergovernmental                       | 59,063           | 59,063     | 59,063     | -0-                                                        |
| Charges for services                    | 530              | 530        | 4,404      | 3,874                                                      |
| Interest                                | 10,000           | 10,000     | 22,273     | 12,273                                                     |
| Other                                   | 2,000            | 2,000      | 10,442     | 8,442                                                      |
| TOTAL REVENUES                          | 576,893          | 576,893    | 625,749    | 48,856                                                     |
| EXPENDITURES                            |                  |            |            |                                                            |
| Current                                 |                  |            |            |                                                            |
| Salaries and wages                      | 135,567          | 135,567    | 128,989    | 6,578                                                      |
| Fringe benefits                         | 11,033           | 11,033     | 10,403     | 630                                                        |
| Supplies                                | 30,670           | 30,670     | 20,407     | 10,263                                                     |
| Contractual services                    | 17,150           | 17,150     | 14,152     | 2,998                                                      |
| Permits                                 | 2,000            | 2,000      | 2,200      | (200)                                                      |
| Insurance                               | 33,117           | 33,117     | 34,841     | (1,724)                                                    |
| Repairs and maintenance                 | 10,500           | 10,500     | 7,321      | 3,179                                                      |
| Utilities                               | 15,696           | 15,696     | 14,714     | 982                                                        |
| Training                                | 10,000           | 10,000     | 7,857      | 2,143                                                      |
| Medical examinations                    | 5,900            | 5,900      | 1,447      | 4,453                                                      |
| Other                                   | 53,734           | 53,734     | 4,713      | 49,021                                                     |
| Debt service                            | 95,324           | 95,324     | 81,058     | 14,266                                                     |
| Capital outlay                          | 126,397          | 126,397    | 114,229    | 12,168                                                     |
| TOTAL EXPENDITURES                      | 547,088          | 547,088    | 442,331    | 104,757                                                    |
| EXCESS OF REVENUES<br>OVER EXPENDITURES | 29,805           | 29,805     | 183,418    | 153,613                                                    |
| Fund balance, beginning of year         | 560,107          | 560,107    | 560,107    | -0-                                                        |
| Fund balance, end of year               | \$ 589,912       | \$ 589,912 | \$ 743,525 | \$ 153,613                                                 |



Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
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MANAGEMENT LETTER

To the members of the  
Fowlerville Area Fire Authority  
Fowlerville, Michigan

Dear Ladies/Gentlemen:

As you know, we have recently completed our audit of the records of Fowlerville Area Fire Authority for the year ended June 30, 2006. In connection with the audit, we feel that certain changes in your accounting procedures would be helpful in improving management's control and the operational efficiency of the accounting functions. This suggestion is a result of our evaluation of the Authority's internal controls and our discussions with management.

The Authority should consider adopting additional administrative policies and procedures.

We noted substantial improvement in the area of policy development that occurred during the year ended June 30, 2006. However, based on our discussions with management, we noted three (3) areas of operation where the Authority has not yet formally adopted written procedures or policies. As a result, we again suggest that the Authority consider adopting additional administrative policies and procedures. Documenting specific policies and procedures allows employees to have a clearer understanding of management's expectations. It also allows management to have greater visibility over those areas for which they are responsible. Specifically, we suggest that the Authority develop, formally adopt, and implement written procedures and policies in the following areas:

- a. Disaster recovery plan - We suggest the Authority adopt a disaster recovery plan. The plan should identify areas of operation that are critical to the Authority and detail how the Authority would continue to operate in the absence of those critical areas of operation.
- b. Employee dishonesty insurance - We suggest the Authority consider obtaining bonding insurance for all individuals who handle cash for the Authority. By obtaining bonding insurance, the Authority would limit the amount of any potential losses.
- c. Organizational Chart - We suggest the Authority develop a formal organizational chart in order to clearly delineate authority and responsibility internally.

This condition was considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the financial statements and this report does not affect our report on the financial statements dated October 5, 2006.

This report is intended solely for the use of management and the Board of Trustees of the Fowlerville Area Fire Authority and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you and to provide assistance in the implementation of improvements.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

October 5, 2006